

Message Text

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ACTION EB-11

INFO OCT-01 ARA-16 ISO-00 AGR-20 CEA-02 CIAE-00 COME-00

DODE-00 FRB-02 H-03 INR-10 INT-08 L-03 LAB-06 NSAE-00

NSC-07 PA-04 RSC-01 AID-20 CIEP-02 SS-20 STR-08

TAR-02 TRSE-00 USIA-15 PRS-01 SP-03 FEA-02 OMB-01

SWF-02 DRC-01 /171 W
----- 087378

R 041811Z APR 74

FM AMEMBASSY TEGUCIGALPA

TO SECSTATE WASHDC 6736

INFO AMEMBASSY BOGOTA

AMEMBASSY BRAZILIA

AMEMBASSY GUATEMALA

AMCONSUL GUAYAQUIL

AMEMBASSY MANAGUA

AMEMBASSY PANAMA

AMEMBASSY QUITO

AMEMBASSY SAN JOSE

AMEMBASSY SAN SALVADOR

C O N F I D E N T I A L SECTION 1 OF 2 TEGUCIGALPA 1447

GUATEMALA ALSO FOR ROCAP

E.O. 11652: N/A

TAGS: ETRD, PFOR, XK

SUBJECT: BANANAS - DISCUSSION WITH BENNATON

REF: TEGUCIGALPA 1387

SUMMARY: AT HIS REQUEST MINECON BENNATON CALLED UPON
AMBASSADOR TO DISCUSS BANANA PROBLEM. BENNATON OUTLINED
HIS UNDERSTANDING BACKGROUND OF DEVELOPMENTS TO THE MOMENT.
HE SHOWED SOME CONCERN ABOUT "ATTITUDE" STANDARD FRUIT. HE
STATED SURCHARGE WILL GO INTO EFFECT APRIL 15. HE STATED
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JOINT DIPLOMATIC NOTE IS TO BE PRESENTED BY BANANA EXPORTING

COUNTRIES TO DEPT. OF STATE IN NEAR FUTURE. NO ACTION REQUESTED. END SUMMARY.

1. ABRAHAM BENNATON, MINISTER OF ECONOMY, CALLED ON AMBASSADOR SANCHEZ APRIL 3 TO CONVEY BACKGROUND DEVELOPMENT OF BANANA EXPORT CHARGES. BACKGROUND CONSISTENT WITH GENERAL PATTERN REPORTING ADDRESSEE POSTS WITH SOME MINOR, BUT SIGNIFICANT, ADDITIONAL INSIGHTS. AMONG THESE ARE FACT THAT BENNATON REQUESTED SIECA INVOLVEMENT TO PROVIDE STAFF AND ANALYTICAL CAPACITY IN PREPARATION OF AGREEMENTS ON BANANAS. STATED SIECA PERFORMING AS "SECRETARIAT" FOR UNION OF BANANA EXPORTING COUNTRIES UNTIL ORGANIZATION ESTABLISHES OWN CAPACITY.

2. BENNATON SAID "ATTITUDE" OF STANDARD FRUIT HAS BEEN SOURCE OF PREOCCUPATION OF GOVERNMENT OF HONDURAS. (BENNATON LISTENED TO SUGGESTION THAT STANDARD FRUIT POSITION HAD SERVED TO BRING TO ATTENTION OF ALL CONCERNED ADDITIONAL INFORMATION NECESSARY FOR UNDERSTANDING OF MARKET AND POSITION OF COMPANY AND THAT AT THIS JUNCTURE THERE WAS LITTLE DIFFERENCE BETWEEN POSITION OF AT LEAST UNITED AND STANDARD. ONE MIGHT VIEW STANDARD'S WILLINGNESS TO TAKE PRESS AND GOVERNMENT SPOKESMEN'S BLOWS AS A SERVICE TO THE COUNTRIES IN PREPARING A FUNCTIONAL PROGRAM.)

3. BENNATON STATED HE DID NOT ACCEPT STANDARD FRUIT'S OFFER FOR A VISIT TO EXAMINE MARKET IN THE U.S. BECAUSE HE HAS NO EXPERIENCE IN BANANAS OR ANY OTHER COMMODITIES AND HE HAS TOO MANY OTHER THINGS TO DO. (HE LEFT US WITH THE DISTINCT FEELING THAT HE IS NOT INTERESTED IN FACTS THAT DO NOT FIT THE DECISION.)

4. BENNATON STATED THAT THE SURCHARGE WILL BE APPLIED BEGINNING APRIL 15 (IN CONTRAST TO POSITION REPORTED BY MINISTER OF FINANCE ACOSTA BONILLA REFTTEL). BENNATON STATED PANAMA HAS ALREADY APPLIED TAX, AND COSTA RICA SUBMITTED TO LEGISLATURE MARCH 28 BILL OF AUTHORIZING LEGISLATION SO THAT COSTA RICA COULD BEGIN APPLICATION \$1 PER BOX TAX IN IMMEDIATE FUTURE.

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5. BENNATON CONSIDERED ECUADORAN NON-PARTICIPATION AT BOGOTA A SLIGHT "DIPLOMATIC MISUNDERSTANDING" AND NO INDICATION THAT ECUADOR WOULD NOT FULLY PARTICIPATE IN APPLICATION OF TAX. HE FURTHER STATED THAT THE PRESIDENT OF ECUADOR HAS INDICATED GOE WILL PROHIBIT STANDARD FRUIT FROM EXPORTING MORE BANANAS FROM ECUADOR THAN IN PAST PERIODS, IN RESPONSE TO AMBASSADOR'S QUESTION, BENNATON STATED THAT HE WAS ANXIOUS TO CONTINUE THE DIALOGUE WITH THE FRUIT

COMPANIES. HOWEVER, HE REITERATED THE CONTENTION THAT THE DECISION HAS BEEN TAKEN AND EXPRESSED THE VIEW THAT THE BANANA COMPANIES, DESPITE U.S. LAWS OR MARKET CONSIDERATIONS "CAN MANAGE TO SUPPORT THE OBJECTIVES OF INCREASED BANANA PRICES."

6. BENNATON STATED THAT A REDUCTION IN EXPORT SHIPMENTS TOOK EFFECT APRIL 1 IN ORDER TO TEST THE SUPPLY, DEMAND AND PRICE CONDITIONS FOR BANANAS. HE DID NOT SPECIFY HOW THIS REDUCTION IN VOLUME HAD BEEN IMPOSED BY THE EXPORTING COUNTRIES. HE STATED HIS VIEW THAT THE \$1 INCREASE PER BOX OF BANANAS WILL RESULT SHORT-TERM 20 TO 30 PERCENT REDUCTION IN CONSUMPTION BUT AT THE LEVEL OF EXPORTS FROM HONDURAS OF 60 MILLION BOXES, THE NET GAIN FOR HONDURAS WILL STILL BE BETWEEN \$36 AND \$40 MILLION DOLLARS.

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GUATEMALA ALSO FOR ROCAP

7. IN RESPONSE TO SEVERAL QUESTIONS BENNATON INDICATED THAT HE DOES NOT ANTICIPATE HONDURAS WILL SUFFER COMPETITIVELY AS A BANANA EXPORTING COUNTRY.

8. I THEREFORE POINTED OUT TO BENNATON THAT WE ARE DEEPLY CONCERNED WITH THE POTENTIAL INCREASE OF PRICE FOR THE AMERICAN CONSUMER. I FURTHER NOTED THAT THE LAWS IN THE U.S. CONCERNING COMPANIES WHICH OPERATE IN SUCH A MANNER AS TO CONTROL PRICES OR DISTORT THE OPERATION OF FREE MARKET MECHANISM ARE SUBJECT TO SEVERE PENALTIES UNDER U.S. LAWS.

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9. BENNATON RESPONDED THAT HONDURAS NEEDED ADDITIONAL INCOME DUE TO PETROLEUM PRICE INCREASES AND THAT IT HAD NO OTHER EXPORT PRODUCT THAN BANANAS FOR WHICH IT COULD SEEK HIGHER PRICES TO ACHIEVE A BALANCE.

10. I ASKED WHAT THE LEGAL POSITION OF THE TWO BANANA COMPANIES IN HONDURAS WILL BE CONCERNING THEIR CONTRACTUAL ARRANGEMENTS WHICH PROHIBIT AN INCREASE OF TAXES ON THEIR EXPORTS. BENNATON RESPONDED THAT HE HOPED THAT AN AMIABLE RESOLUTION OF THIS WOULD BE POSSIBLE. HE ADDED THAT UNITED FRUIT MAY SEND A LAWYER TO DISCUSS THE PROBLEM.

11. COMMENT: I HAVE DISTINCT IMPRESSION THAT BENNATON, DESPITE HIS PROFESSED CAUTION, HAS LED BANANA EXPORT DEPENDENT HONDURAS DOWN A DANGEROUS PATH. WITH LITTLE SPECIFIC KNOWLEDGE OF BANANA MARKETING OR INDUSTRY BENNATON HAS BEEN WILLING TO RELY UPON BANANA TAX AS MODE TO SOLVE PETROLEUM PAYMENTS PROBLEM. EVEN IN UNLIKELY CIRCUMSTANCE THAT BENNATON'S ESTIMATE OF EFFECTS OF PRICE INCREASE OR VOLUME ARE CORRECT AND REVENUES WOULD BE MAINTAINED, HE IS IN ESSENCE EXCHANGING FOREIGN EXCHANGE EARNINGS AND REVENUES OF GOH FOR UNEMPLOYMENT IN NORTH COAST BANANA PRODUCING AREA. DESPITE BENNATON'S COOL AND SOFT SPOKEN PRESENTATION, THE PROCESS OF DECISION MAKING WHICH HE HAS DISPLAYED, IF GENERALIZED THROUGHOUT THE ECONOMY, WOULD BE A BAD OMEN FOR A RATIONAL ECONOMIC DEVELOPMENT OF THIS ECONOMY. (SUBSEQUENT AID DIRECTOR CONVERSATION WITH MINFIN ACOSTA BONILLA INDICATES HIS SUBSTANTIVE AGREEMENT WITH THIS COMMENT DEMONSTRATING THAT THERE IS NOT FULL ACCORD WITHIN GOH CABINET ON PROCESS TO DATE.)

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